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Correspondent of The National City Bank of New York

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THE NATIONAL CITY BANK OF NEW YORK

1931

Economic Conditions Governmental Finance United States Securities

New York, November, 1931.

Banking Situation in the United States

THE chain of financial disturbances set in motion by the depression, which during the Summer swept rapidly from one to another of the world's great money markets, causing successive crises in Central Europe, Germany and Great Britain, crossed the Atlantic in the last days of September; and the attention of the world since has turned to a new center of interest, the United States. Following Great Britain's suspension of gold payments, a momentous climax to the accumulated difficulties of the depression, an extreme state of nerves became evident in many places. The breakdown of confidence in international relationships led to withdrawals of gold from this country to the unprecedented total of over $700,000,000 in six weeks. Among the people of the United States an eruption of fear for the safety of their money occurred, fortunately localized for the most part, but temporarily calamitous in its effects upon the communities concerned. The tide of bank suspensions rose again to the heights of November and December last; where weaknesses existed in the banking structure they were intensified by loss of confidence among depositors, and numbers of solvent banks have been dragged down with the unsound ones. Hoarding of currency continued, withdrawals from the banks reaching a new high point during the first week of October when the increase in circulation was $185,000,000. In short, the last days of September and the first of October undoubtedly will go down in history as marking a panic stage within the depression, though the strength of our currency and banking systems has prevented any such dire consequences for the country as a whole as are commonly associated with that word.

As always in such times, concern for the banking position became the paramount problem before the country, and plans to help the situation have centered on support for the banks against the current unreasoning alarms and apprehensions. On October 6 President Hoover, with the support of a bi-partisan conference of Congressional leaders, took cognizance of the situation and issued a public statement outlining a program for dealing with the banking difficulties in evidence. As the principal step in the program, he called upon the bankers of the country to organize a "national institution" having funds of at least $500,000,000, whose purpose would be "the rediscount of banking assets not now eligible for rediscount at the Federal Reserve Banks in order to assure our banks, being sound, that they may attain liquidity in case of necessity, and thereby enable them to continue their business without the restriction of credit or the sacrifice of their assets."

Acting upon this request, the banks of the country under the leadership of a committee of the members of the New York Clearing House Association have moved with great rapidity in organizing such an institution under the name of the National Credit Corporation, which is ready to function for the purpose outlined. This prompt response impressively illustrates the readiness to cooperate with which the banking system of the country, drawing together and pooling its resources as necessary, is meeting the situation.

Liquid Banking Resources

Though the disruption of confidence that underlies banking difficulties is a very serious matter, and the consequences of each suspension are grave for those concerned, it would be grossly wrong to conceive that the soundness of the banking structure as a whole is affected by the failures occurring. In the 2,200 suspensions in the past twelve months, October estimated, a period of very widespread troubles, only 3.5 per cent of the country's total deposits has been involved. Many of these banks were closed but temporarily, 202 having reopened in the first nine months of this year.

The emergency finds the larger city banks, which possess about 40 per cent of the country's total banking resources, not merely sound, but in a condition of unparalleled liquid-

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ity, enabling them to extend valuable assistance where they can safely do so. Taking the New York City banks as an illustration, they held, on June 30 last, cash and assets immediately and fully convertible into cash (loans eligible for rediscount at the Reserve Bank, United States securities eligible for advances, and demand loans to brokers) equivalent to 55 per cent of their net demand and time deposits. There is reason to believe that this percentage has increased since that date.

There is abundant room for member bank borrowing within the Federal Reserve System, which upon the basis of its gold holdings as of October 28 could supply at least another $2,500,000,000 of Federal Reserve note currency to its members. Nor do the member banks as a group lack power to call this credit into use. On June 30 last they held $5,350,000,000 of United States government securities and $3,200,000,000 of eligible paper, a total of $8,550,000,000. Thus it is clear that there are large reserves untouched, and available at the will of the banks for use where right grounds for borrowing can be shown. The strong banks have already extended great assistance to solvent banks facing abnormal withdrawals, and will continue to do so. They cannot be expected to rescue hopelessly insolvent banks and incompetent bankers from the weakness of their situation, but there has been and will be no general breakdown of credit such as used to occur in times of stress before the Federal Reserve System.

Largely because of the demonstration of banking power and solidarity, whose influence upon the situation, it should be understood, is by no means limited to the operation of the National Credit Corporation, there appeared strong reason to believe at the close of October that the sensible character of the American people had had time to reassert itself, and that they were freeing themselves from their fears. The rally in the stock market, always a register of public opinion, indicated returning confidence in this country, and easiness in foreign exchange rates and subsidence of the gold export movement showed a relaxation in the demands on the dollar abroad. The most significant of all indexes to the situation, the volume of money in circulation, made a more satisfactory showing during the last two weeks of the month, a decline of $24,000,000 in the final week seeming to indicate that the panicky hoarding of currency had at last passed its peak.

Background of the Situation

The fundamental cause of the widespread bank failures goes back to the wartime rise of commodity prices and wages, and to the inflation of credit made possible by the rapid increase of our bank reserves, which likewise was a consequence of the war. Prices of everything rose, and a new level of values was established which as the people became accustomed to it seemed to be real and permanent. A great volume of indebtedness was erected upon the basis of these values, and when it turned out that they were inflated the position of the debtors became a most difficult one. Banks, being debtors to their depositors, and subject to call for repayment upon demand or short notice, have been involved in these difficulties, particularly where their funds were employed to an imprudent extent in long-term loans or investments.

The situation is well illustrated by reference to the rural banks, among which the mortality has been highest. During the war and the succeeding boom period the prices of farm lands were marked up to accord with the higher values of the products grown upon them, and an abnormally active turnover of farm properties began which was financed largely on credit. Between 1910 and 1920 the estimated total farm mortgage debt in the United States rose from $3,600,000,000 to $7,900,000,000 or 119 per cent. Farm real estate values by March, 1920, had risen 70 per cent above the 1913 average. The rural banks became involved in loans which directly or indirectly were based on these land values; and the subsequent decline in them was the cause of a great increase in bank failures.

By the year 1928 a further rise in farm mortgage debt to $9,500,000,000 had occurred, while the decline in land values continued. Between 1928 and 1930 the total debt remained practically unchanged, but by 1930 land values averaged only 115 per cent of the 1913 base, and on March 1 of this year they had fallen to 106, or nearly 40 per cent under the peak. The decline in the prices of farm products since May, 1928, when they averaged 148 per cent of the 1909-14 level, carried them down to 72 in September of this year, a reduction of more than one-half.

These declines in prices and land values have left the new indebtedness without adequate support, and the figures show plainly the grave difficulties with which the banks whose business is with farming communities have had to contend.

Similarly, the decline in values of other products and other real estate, and in stocks and bonds, has involved banks with more diversified assets, though much less seriously until recently, when the influence of fear has been added to other difficulties. Even among these banks the decline in real estate has been the most serious single cause of difficulty. It is pertinent to say here that loans on other realty are a far greater item in the country's banking totals than direct loans on farm lands,

exceeding them in the ratio of no less than 23 to 1.

In most cities during the boom years there was a development of new banks, beginning small and growing on a class of business which the old established banks would not touch. The collapse of real estate booms in many cases left these banks in difficulties they have been unable to survive, once the cycle of deflation exposed their weakness.

Changed Trends in Banking

Of particular importance in the present situation has been the tendency of bank credit in recent years to take the form of loans and investments that are not eligible for rediscount at the Federal Reserve Banks. During the six years ended June 30, 1929, the percentage of the resources of the banks of the United States employed in loans on securities rose from 11.1 to 15.5; the percentage in real estate loans increased from 9.3 to 14.4; and the percentage in "all other" loans, from which those eligible for rediscount are drawn, dropped from 35.7 to 27.3, and in volume remained nearly constant despite the great growth of resources during the period. Complete figures of the amount of eligible paper held are not on record, but on June 30, 1923, the national banks had 16.5 per cent of their resources in eligible paper, and on June 30, 1929, only 10.8 per cent. By June 30, 1931, it had dropped to 7.8.

Changes in investments have been less marked, but were likewise away from liquidity during the boom period, the percentage of resources in U. S. government securities dropping from 7.8 to 5.5 in the six years, while the percentage in other securities rose from 17.5 to 18.4.

Even these figures do not wholly reveal the situation, due to the differing trends within the banking system as between the city and country banks. From June 30, 1926, the earliest date for which figures are available, the trend of combined holdings of U. S. government securities and eligible paper of the reserve city member banks was upward, while in the case of the so called "country" member banks it was downward. Since October 4, 1929, the divergence between the two groups has been extreme; the city banks' total holdings of the two items rose from $5,334,000,000 to $5,741,000,000 on June 30 this year, a gain of 8 per cent, while for the country banks the total dropped from $2,645,000,000 to $2,164,000,000, a reduction of 18 per cent.

Effects of Business Changes

To a great extent this relative decline in holdings of eligible paper by the banks has been outside of their control. The available quantity of such paper, which is created principally by self-liquidating loans based upon commercial transactions, declined first as corporations financed themselves more by security sales, and less by bank loans, and second due to business depression. The situation has affected principally the small banks, since commercial borrowing has gravitated to the larger banks in larger centers, under the influence of better communications, chain store systems, the increasing size of business units, and similar factors.

For such reasons the last few years have been in general a period of declining liquidity, especially for country banks, with a marked turn by city banks, within the current year, toward increased liquidity through purchase of U. S. government bonds. Undoubtedly the only reason why country banks also have not reversed their position is that they have been unable to do so. Five-cent cotton and 30 cent wheat have been too great a problem for them to solve. Even where they have had an adequate percentage of well-secured loans of short maturity, debtors have been unable to repay promptly, necessitating renewal or the sale of the security at a sacrifice, a demoralizing necessity avoided whenever possible. Thus a "frozen" condition of bank credit exists in many localities, the term signifying merely that an undue proportion of their sound assets cannot be converted overnight into cash without forced sale.

The impact upon banks in such condition of a sudden and panicky demand of depositors for the repayment of their funds at once becomes insupportable. The weakness in the situation due to lack of liquidity has been evident in two ways; first, in the inability of solvent banks promptly to borrow upon their assets to a sufficient extent to meet demands upon them; and second in selling of bonds by the banks in order to raise funds. This depreciates the investments of other banks, which in turn may find their capital impaired, the whole process illustrating the vicious circle in which depression operates.

Such is the background of the situation, which itself indicates the nature of the remedial measures undertaken.

The National Credit Corporation

The purpose of the National Credit Corporation, sponsored and subscribed to by the banks of the country, is to mobilize banking resources into a pool, out of which to make loans in the present emergency, to sound banks upon sound assets. It is a mechanism for the rediscount of such good paper of these banks as is not eligible for rediscount by the Federal Reserve Banks, as a method of assisting temporarily illiquid banks to meet their current obligations, and thus to make sacrifice of assets

unnecessary, reduce the number of bank suspensions, and assist in the restoration of public confidence in the banking situation.

The funds of the Corporation are being obtained through subscriptions to its renewable gold notes, issuance of which in an amount up to $1,000,000,000 is authorized. Every bank in the United States is asked to subscribe to these notes to the extent of 2 per cent of its net demand and time deposits up to the legal limit.

In its operations the Corporation will be decentralized, in order that applications for loans may be passed upon, in the first instance, by men thoroughly familiar with local conditions and local names. Local associations of subscribing banks will be set up, under the supervision of a director of the Corporation, of whom there are twelve, one for each Federal Reserve district. Each of these associations will have its own loan committee to pass on applications, before referring them on to the Corporation, and for each loan made to a bank all the other banks in the local association become liable for certain fixed percentages in proportion to their subscriptions. Thus the National Credit Corporation will have as security for any loan it makes: (1) the note of the borrowing bank; (2) the security furnished by the borrowing bank; (3) the note of the association of banks of which the borrowing bank is a member.

All this is evidence that the Corporation does not propose to become a dumping ground for unsound paper, or a futile support for situations that cannot be supported.

Other Assistance

The National Credit Corporation is not the only project in the program for support of credit laid down by President Hoover on October 6. He announced his purpose to recommend to Congress that the eligibility provisions of the Federal Reserve Act be broadened to give greater liquidity to bank assets in time of stress; that the government subscribe further capital to the Federal Land Banks; and, if necessity requires, that there be created a government finance corporation, patterned after the War Finance Corporation, to supplement the work of the National Credit Corporation, perhaps giving assistance in the real estate mortgage field, and to the railroads. These proposals will become the subject of discussion when Congress convenes.

It is our view that the dramatic events of these few weeks have immensely strengthened the resolution of the strong banks, members of the Federal Reserve System, to cooperate effectively in support of the situation, and to widen the latitude of the individual assistance they give. We referred earlier to high liquidity of the strong city banks. The policy which these banks have followed of keeping strong now proves its worth, and supplies its own answer to the critics who would have had the bankers fritter away their resources in all kinds of futile and misguided efforts to "restore prosperity."

Now the country is experiencing an abnormally increased call for credit, not from visionaries wanting huge sums for schemes to revive trade, but from fearful people demanding the repayment of their money. It is a demand that will be relaxed as fear recedes, as currency and deposits return to the banks. Meanwhile it is fortunate that the overwhelming majority of the larger banks, possessing very much the larger part of the country's banking resources, are able to support these demands, diffusing their liquidity throughout the banking system.

Is This Inflation?

It will be clear that the operation of the National Credit Corporation does not directly involve any expansion of bank credit, but merely the mobilization and transfer of credit within the banking system as a whole to points where it is needed and can be of service. However, the individual banks in finding the funds for their subscriptions to the Corporation, or for other assistance, may possibly draw upon the Reserve Banks, thus increasing the amount of Federal Reserve credit in use. Hence the question, do these measures involve inflation, which is being asked in some places.

The word "inflation" is one of many meanings and confused usage, but its significance is properly psychological as well as technical, and where the state of mind of the people inhibits them from using credit to the extent of creating fictitious values based upon it, inflation cannot in fact exist, regardless of the volume of credit outstanding. Today there is more Reserve Bank credit in use than in any year since 1921, but to say for that reason that a state of inflation exists would be manifestly absurd, since the people decline to use the credit in the markets but instead have put it away in their strong boxes in the shape of currency.

Until business confidence is restored inflation in this country is thus a psychological impossibility. When it is restored the efforts that have given rise to these conjectures, which are efforts to check deflation, to stop the vicious circle that has been in operation, will be no longer necessary. The temporary debts now being incurred will be repaid, and currency will flow back into the banks; and the Reserve Bank credit outstanding will doubtless be retired proportionately. The rate of retirement of the credit will become important, and as credit usually flows back into the

Reserve Banks less rapidly than it flows out, the total outstanding may for a time somewhat exceed business demands. If this proves to be the case, the inflationary effects will be limited, and entirely beneficial in that early-recovery stage of the business cycle. Such, we believe, is the sum total of the possibility of inflation developing out of this situation. Ideas to the contrary can arise only from lack of comprehension of the abnormal and impermanent nature of the demand that has called the credit into use.

Borrowing from the Reserve Banks now is not a sign of banking weakness. On the contrary, it is a sign of strength and leadership, an indication that the kind of banking service which the times demand is being rendered. The Federal Reserve System provides for this country an elastic system of currency and credit expansion which can perform its greatest service not in normal but in abnormal times. The Reserve Banks' assistance to the banking system in times of stress can be extended only upon the initiative of the member banks, who are the borrowers calling forth and employing Reserve Bank credit. Thus the responsibility for making the Reserve System of the assistance it was designed to be falls most importantly upon its members; and it is not being shirked.

Foreign Withdrawals of Gold

The sudden "cashing in" of foreign claims against gold in this country was a natural result of the suspension of gold payments by Great Britain. London's financial strength had so long impressed Europe that when she acknowledged her inability to maintain gold payments the question arose as to what other countries might fall. Next to London, New York was the greatest depository of foreign funds, and if investments of all kinds were included, probably more foreign capital was invested in dollars than in any other currency. Reports of bank failures in the United States helped to start the alarm and the outflow of gold quickly assumed large proportions. Of course, the bank failures have no significance bearing upon the soundness of the monetary system of this country.

Since September 20 exports of gold from this country have totaled approximately $408,000,000, and another $408,000,000 has been transferred to foreign ownership but left in the United States under earmark for safekeeping, a practice that in its subtraction from our gold stock is exactly the same as an export. Deducting imports during the period, which totaled $86,000,000, the net loss of gold from our stores has reached the unprecedented total of $731,000,000, cancelling the increase that has occurred during the past two years, and reducing the stock to where it was in the Fall of 1929.

No alarm has been manifested by our banking authorities over the gold movement. On the contrary, while the movement itself has been regarded as a hysterical one, it is recognized that a redistribution of gold not needed in this country will be helpful in restoring not only the world equilibrium but more wholesome credit conditions in this country.

In title, the gold we have lost has been this country's. In effect, it has been under foreign ownership throughout its stay here, and withdrawable on demand. The responsibilities of custodian, resting upon the Federal Reserve Banks, have been onerous. If the gold had been allowed to become the basis of a large credit expansion the effects of its sudden withdrawal upon this country would have been very serious; yet in their refusal to permit such expansion the banking authorities have been the targets of much criticism, and the presence of the gold in this country has been responsible for the propagation of so many unsound schemes looking to its use, and has constituted such an unremitting temptation to inflation, that it has been from the first an element of danger and unsettlement. It is a fortunate thing to have the excess removed at a time when its withdrawal causes the minimum of disturbance.

The Money Markets

Under the influence of the large outflow of gold and the expansion in the domestic demand for currency due to hoarding, money rates have advanced appreciably during the past month. On October 9 the Federal Reserve Bank of New York took official cognizance of the change in money conditions by an advance in its discount rate from 1½ to 2½ per cent, which was followed a week later by a further 1 per cent advance to 3½. Following the increase at New York, increases were put into effect at other Reserve Banks as follows: Boston from 2 to 3½; Philadelphia 3 to 3½, Cleveland 2½ to 3½, Richmond 3 to 4, Chicago 2½ to 3½, St. Louis 2½ to 3½, Kansas City 3 to 3½, Dallas 3 to 4, and San Francisco 2½ to 3½.

Open market money rates promptly adjusted themselves to the new Federal Reserve rates, as indicated by the following table comparing rates in the last week of October with those a month earlier:

	Last Week Sept. 1931	Last Week Oct. 1931
Call Money	1½%	2½%
Time Loans, 60-90 Days	2-2¼	3-4
" " 4, 5, 6 Months	2-2¼	3½-4½
Commercial Paper, Best Names	2	4
" " Others	2¼	4½
Acceptances, 90-days, Asked	1¼	3¼

The action of the Federal Reserve Banks in raising rates marks a distinct departure from their previous policy which was one of keeping money rates as low as possible, with a view both to discouraging gold imports and of stimulating the bond market to the end that constructive undertakings might be financed and the general business situation improved thereby. Since then, the gold inflow has turned into an outflow, thus removing one reason for the maintenance for extreme low rates, while as a means of stimulating business revival, the low rates have proved to be ineffectual. Meantime, the growing nervousness among bank depositors and tendency to withdraw currency and hoard it has made it desirable that the banks be enabled to offer more attractive rates on deposits. With rates payable on deposits in New York City Clearing House banks as low as ½ of 1 per cent on current accounts and 1 per cent on time deposits, there has been little incentive for people to keep their money in banks. The advance in the bank rate, leading as it does, to an increase in the earning power of bank investments, makes it possible for banks to advance the rates to their depositors, and on October 16 the New York Clearing House put the following schedule of rates into effect:

	Former Rates	Rates Effective Oct. 16, 1931
Demand Deposits		
To banks, trust companies, private bankers	½%	1%
To Mutual Savings Banks	1	1½
To Others	½	1
Time Deposits		
(Up to 6 months)*	1	1½

*Certificates or deposits payable more than 6 months from date of issue or demand without regulation.

Gold Exports and "Free" Gold

Enough has been said in preceding paragraphs of this Letter to indicate that the higher discount rates are not intended to put obstructions in the way of the outflow of gold, which is regarded here as an altogether healthful development. Notwithstanding the loss of gold, the amount of "free" gold in the Federal Reserve Banks at the current writing is substantially as large as before the movement started. To one not familiar with the workings of our currency system, this may sound paradoxical, but the explanation is simple. Under the law, the Federal Reserve Banks are obliged to pledge with the Federal Reserve Agent eligible paper or gold up to the full amount of notes issued by the Agent to the Reserve Bank, including notes held by the Federal Reserve Banks themselves as well as notes in actual circulation. Against the notes in circulation at least 40 per cent reserve must be gold, in addition to which the Reserve Banks must keep at least 35 per cent gold against deposits. The "free" gold comprises gold in excess of an amount which, combined with eligible paper, will cover Federal Reserve notes 100 per cent and provide for the necessary 35 per cent cash reserve against deposits. The reason that the amount of "free" gold is somewhat greater now than it was a month ago in spite of gold exports and an increase in Federal Reserve notes issued is because the eligible paper, consisting of discounts and acceptances, has increased and has taken the place of an equivalent amount of gold as security for Federal Reserve notes.

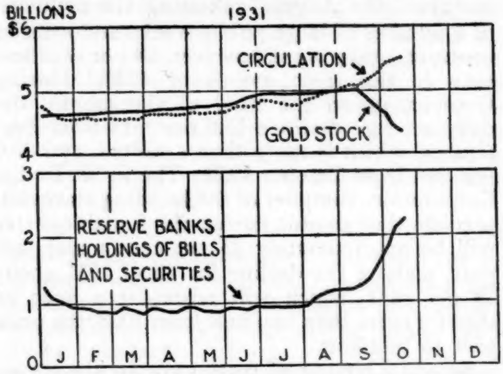
This increase in eligible paper is itself the result of the gold exports and increase in circulation which have caused member banks to sell bills to, or rediscount with, the Reserve Banks in order to make good the loss of reserve occasioned by these withdrawals.

It is impossible to tell precisely how much additional gold could be released by continuing this process of substituting paper for gold behind Federal Reserve notes, as that depends largely on various factors which cannot be estimated in advance, such as amount and character of the domestic demand for credit (whether for notes or deposit credit), and the possible substitution of Federal Reserve notes requiring only 40 per cent gold backing for gold certificates in circulation requiring 100 per cent gold backing. The amount, however, is large. Based on their actual condition as of October 28, the Federal Reserve Banks could provide either for an additional export of gold of over $1,000,000,000, or an increase of more than $2,500,000,000 in Federal Reserve notes in circulation before reducing the Federal Reserve ratios below the legal minimum. If, in addition, Federal Reserve notes are substituted for gold certificates in circulation, the margin of maximum "free" gold would be increased still further by an indeterminate amount.

Gold and Currency Demands Abate

During the latter part of October there were indications of an abatement both in the foreign demand for gold and in domestic withdrawals of currency. During the final week of the month the net excess of gold exports, plus earmarking for foreign account, over imports amounted to $47,000,000, the smallest for any week since the beginning of the movement. At the same time there was a decrease of $24,000,000 in the volume of money in circulation, the first decrease in this item, excepting only a small decline in the week following the Labor Day holiday, since July. This decrease in currency, following two weeks during which the increases were considerably smaller than in September and early October, seems to afford encouraging evidence of a lessened tendency to hoarding on the part of the public and of reviving confidence in the banks.

In the accompanying diagram, we present a picture of the increase in currency in circulation and decline in monetary gold stock which has taken place this year, and also indicate the manner in which these demands have been met without undue disturbance to the money market. Since the first of August the volume of Reserve Bank credit outstanding has increased $1,271,000,000, to the highest point since 1921. Of this increase, $703,000,000, has been in the form of bills purchased from banks and dealers in the open market, and $509,000,000 has been in the form of discounts and advances for member banks. The paper thus acquired by the Reserve Banks has become available for use as collateral for Federal Reserve notes and has released gold for export in the manner already described. Latest figures on the chart are for October 21.



General Business Conditions

Business activity has shown some pickup during October, but the improvement has been limited to ordinary seasonal increases, including a more rapid crop movement and the gains in mercantile lines usually associated with the Fall. The chief handicap to speedier recovery has been the acute stage in banking difficulties reached early in the month. In some communities, suddenly deprived of most of their banking facilities, all but necessitous trade has been temporarily paralyzed, with effects felt over a much broader area. Financing of all kinds has been difficult, and business men able to overcome this handicap have seen little incentive to undertake expansion or construction projects, or replacement of equipment. Hence the heavy industries, whose markets depend so largely upon the carrying out of such projects, have continued quiet. Some of the industries making articles of every day use, including shoes, woolens, rayon and tires, also have slowed down somewhat, but in their case the decline is largely seasonal. These industries, together with the other household goods and wearing apparel groups, continue to be the backbone of business, and in most cases are more active than a year ago.

In the general atmosphere of fear the measures taken to release "frozen" credit and stimulate its flow to business have been introduced with reassuring effect, and clearly have strengthened the business morale of the country. Beyond doubt solution of the difficulties of the past few weeks has required, more than anything else, a building up of that morale. Whatever the maladjustments underlying these troubles, they would never have reached an acute stage had not a breakdown of confidence complicated them. In restoring that confidence the demonstration of banking solidarity which we have previously described is a soundly devised and effective step, and its helpful accomplishments are already evident.

Premier Laval's Visit to This Country

The visit of Premier Laval to this country upon the invitation of President Hoover has been received with satisfaction in this country. It was known that a feeling existed in France that the President did not show due consideration in announcing his proposal for a moratorium on reparation payments without conferring with the French Government. This may have been a factor in the President's desire for a personal interview with the President of the French Cabinet. It is of the utmost importance that good understanding shall exist between the two governments, and there is reason to believe that this will be promoted by the meeting that has been held. It is easy to say that nothing has been accomplished because no concrete program is announced, but it was known from the first that neither the President nor the Premier would be so imprudent as to attempt to commit his country to a definite policy without having the approval of the law-making branch of his government. The joint statement signed by the two distinguished conferees says:

> We canvassed the economic situation in the world, the trends in international relations bearing upon it; problems of the forthcoming conference for limitation and reduction of armaments; the effect of the depression on payments under intergovernmental debts; the stabilization of international exchanges and other financial and economic subjects.
>
> In so far as intergovernmental obligations are concerned, we recognize that prior to the expiration of the Hoover year of postponement some agreement regarding them may be necessary covering the period of business depression, as to the terms and conditions of which the two governments make all reservations. The initiative in this matter should be taken at an early date by the European powers principally concerned within the framework of the agreements existing prior to July 1, 1931.
>
> Our especial emphasis has been upon the more important means through which the efforts of our governments could be exerted toward restoration of economic stability and confidence.
>
> Particularly we are convinced of the importance of monetary stability as an essential factor in the restoration of normal economic life in the world, in which the maintenance of the gold standard in France and the United States will serve as a major influence.

These are all matters of the first importance and it cannot be doubted that this friendly conference will further the efforts for agreement upon them. Here is recognition of the effect of the business depression upon intergovernmental debts, and the necessity for further action regarding these debts before the expiration of the Hoover moratorium. This recognition opens these vital subjects to public discussions, with an official blessing, which gives them a different status than they had before. They have pledged the two countries to cooperative efforts to maintain the gold standard, which already has had a quieting effect upon the nerves of Europe.

Improvement in Farm Prices

For the farmer the month has brought encouragement in advances in the prices of wheat, cotton and cattle, and steadier markets for hogs. Dairy and poultry products having advanced earlier, price recovery has now extended to all the farmers' main sources of cash income. Wheat has risen sharply, the Chicago price standing 13 cents above the low. The world now accepts the fact that its wheat supplies for the present season are probably smaller than a year ago, while a duplication next season of the bumper crop of Winter wheat raised in this country this year seems out of the question, in view of a poor start and a reduction of acreage enforced by the unprofitable prices. The Government estimate of the cotton crop, issued on October 8, was 16,284,000 bales, an increase of approximately 600,000 over its previous estimate, but the market has been more impressed by improvement in goods business than by this addition to a supply already excessive. The recovery in these important commodities, relieving the pressure upon marginal holders, encouraging buyers, and facilitating repayment of loans, is one of the most hopeful features of the situation.

October is usually the peak month of the year in business activity, November registering a slight recession followed by the holiday upturn. It is likely this year that the peak will be later than usual, due to deferment of buying. To count on this to produce much in the way of belated expansion would be unduly optimistic, but in some lines increased activity is clearly in sight. The two largest producers of automobiles, and several others, are expected to resume assembly operations on new models during November. This resumption provides needed support for steel and other industries supplying the automobile manufacturers, and will assist in maintaining employment during the Winter, the time when it is most needed. This, indeed, is one of the considerations taken into account by the automobile industry in deferring the introduction of new models until this time.

Steel and Building

The steel industry has neither gained nor lost any significant ground during the month. Its level of operations has continued close to the 28 per cent of capacity at which it operated in September. Building contracts awarded during September showed a contra-seasonal increase over August, reflecting the inclusion of a number of large public works and utilities contracts; they were, however, 24 per cent less than in the same month of 1930. During October, up to the 22nd of the month, the daily average declined 13.6 per cent from September, which is more than seasonal, and 35.6 per cent from October 1930. The F. W. Dodge Corporation, compiler of the building statistics, predicts that awards during the fourth quarter will be approximately 25 per cent under last year, making the decline for all of 1931 about 29 per cent, which will represent a drop of slightly more than one-half from 1928, the peak year in building.

Seasonal buying of cotton goods, always an important element in the Fall pickup of trade, has been somewhat belated, but has developed during October to a satisfactory extent. Sales have reached the largest volume since June, and it seems clear that stocks of goods at the mills, which were the smallest in many years at the beginning of the month, have been further reduced. Statistically the situation is a strong one, and mill activity is increasing.

Retail trade has been spotty and the weather early in the month was too warm for its good, the public now being concerned with Winter merchandise. In all lines any upturn in retail activity is followed at once by increased buying at wholesale. Marking down of retail prices continues evident. Sharp reductions in the prices of men's clothing have been made by nearly all manufacturers, and have been applied to Fall re-orders as well as Spring lines, thus reaching the consumer promptly. In many well known branded lines of wearing apparel and household goods, including hats, shoes, sheets, towels, and carpets and rugs, reductions recently made are supplying shoppers with bargains of which they are seemingly ready to take advantage, and these readjustments constitute one of the most important steps toward business recovery.

Railroad Rate Decision

An important event of the month was the announcement on the 20th of the Interstate Commerce Commission's decision on the railroads' application for a 15 per cent emergency increase in freight rates. The reason for this application was the great decline in earnings suffered by the railroads, which has threatened

the ability of a number of roads to continue payment of their bond interest, and has impaired the credit standing of a larger group, whose earnings are not covering their fixed charges by the margin necessary to give savings bank investments the protection required by State laws. The situation of the railroads has been a matter of great importance in the depression for a variety of reasons, chief among which is the wide distribution of the securities whose market value has been affected. Much has been written about the situation, including a lengthy article in this Letter last July, and it seems unnecessary now to say more than that hope of relief in the form of a favorable decision by the Interstate Commerce Commission upon the petition, or in some other manner, had become increasingly widespread.

As handed down, the decision was only superficially disappointing. It denied the increase asked by the roads, but offered a substitute plan for specific increases upon certain commodities, largely coal, ore and other crude bulky products, whereby it estimated the revenues of the roads might be increased $100,000,000 to $125,000,000 annually. The feature of the plan is that it calls for the pooling of all revenues which may result from the increases, "and the distribution of that fund among the carriers who fail to earn their interest charges, in proportion to their deficiencies." This proposal has rightly been regarded as one of revolutionary principle, but the Association of Railway Executives has not taken so severe a view of the matter as some of its friends have, and has appointed a committee to suggest to the Commission modification of some of the proposals made. This, in the language of the street, is interpreted as meaning that if the Commission provides that advances from the pool be loans and not gifts, the outstanding obstacle to acceptance of the proposal will be surmounted.

Disposition of Pooled Funds

It may be estimated that the aggregate deficits in 1931 of the roads which fail to earn their fixed charges will amount to perhaps $75,000,000, although this figure would be much larger if maintenance charges had not been so deeply cut. After payment of these deficits, the surplus remaining of the pooled earnings would be returned to all the carriers, and applicable to the payment of maturing debts.

An intimation of further assistance to the railroads in their effort to maintain their credit standing may be drawn from the proposals made by President Hoover in his statement of October 6. The fifth point in his program announced that he would recommend to Congress, if necessity required, the creation of a government finance corporation "with available funds sufficient for any legitimate call in support of credit." It is understood that the Government is studying methods of financial aid to the roads, presumably through loans to those having bond or note maturities to meet.

Taken together, funds provided by the increase in revenues, plus Government loans, would doubtless meet the railways' credit needs during the period of the emergency, pending the time when, as the Commission believes, the immediate ills of the roads will disappear with the return of prosperity, and when the market for their securities will again be broad enough to enable them to meet their maturities through refunding operations.

The views of the Commission expressed in the decision are constructive. It recommends proper regulation, in the public interest, of competitive forms of transportation. It advises curtailment of passenger service in the interest of economy. It says that "inasmuch as railroad earnings must inevitably fall below normal in times of depression they may properly be permitted to rise above normal in times of prosperity."

Meanwhile an incident of the month worthy of more than passing commendation is the voluntary acceptance by 17 per cent of the train service employes of the Gulf, Mobile & Northern system, and by 94 per cent of its officers and salaried employes, of 10 per cent reduction in their wage and salary scales, to continue as long as the company fails to earn its fixed charges.

Third Quarter Profits

Corporation reports that have been published during the past month covering the third quarter reflect the extremely unsatisfactory operating conditions that have been brought about by the prevailing low level of business activity combined with further decline of commodity prices. A tabulation of the statements of some two hundred companies, engaged in the major manufacturing industries and in retail trade, shows aggregate net profits, after all charges but before dividends, of approximately $97,000,000 in the third quarter, as compared with $167,000,000 in the preceding quarter and $131,000,000 in the first quarter. In the third quarter of 1930, the same companies had net profits of $192,000,000, from which the decline this year was 49.2 per cent. Included in the list are sixty companies reporting deficits for the third quarter this year aggregating $22,325,000, while in the corresponding quarter of 1930 there were forty-two companies with deficits of $12,111,000, all of which have been deducted

INDUSTRIAL CORPORATION PROFITS FOR FIRST NINE MONTHS

Net Profits Are Shown After Depreciation, Interest, Taxes, and Other Charges and Reserves, but Before Dividends.

Net Worth Includes Book Value of Outstanding Preferred and Common Stock and Surplus Account at Beginning of Each Year.

(In Thousands of Dollars)

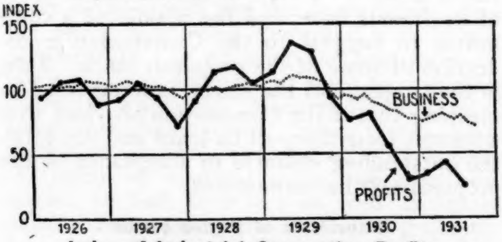
No.	Industry	Net Profits Nine Months 1930	Net Profits Nine Months 1931	Per Cent Change	Net Worth January 1 1930	Net Worth January 1 1931	Per Cent Change	Annual Rate of Return Per Cent 1930	Annual Rate of Return Per Cent 1931
1	Autos—General Motors	$131,403	$97,455	— 25.8	$954,476	$966,802	+ 1.3	18.8	13.4
12	Automobiles—Other	22,873	9,606	— 58.0	550,216	495,025	—10.0	5.5	2.6
18	Auto Accessories	21,549	10,517	— 51.2	213,857	206,149	— 3.6	13.4	6.8
4	Aviation	1,524	3,831	+151.4*	143,595	135,244	— 5.8	0.9	3.8
9	Baking	34,475	28,590	— 17.1	333,506	333,626	0.0	13.8	11.4
6	Building Materials	7,228	5,336	— 26.2	119,993	110,490	— 7.9	8.0	6.4
12	Chemicals	90,168	71,641	— 20.5	918,688	1,017,310	+10.7	13.1	9.4
5	Coal Mining	978	1,130	+ 15.5*	96,000	95,305	— 0.7	1.4	1.6
9	Electrical Equipment	56,638	30,463	— 46.2	732,944	735,898	+ 0.4	10.3	5.5
16	Food Products—Misc.	75,163	64,645	— 14.0	601,795	618,740	+ 2.8	16.7	13.9
5	Household Goods	7,743	5,901	— 23.8	105,405	107,143	+ 1.6	9.8	7.3
1	Iron and Steel—U. S. Steel	92,100	17,344	— 81.2	1,919,313	2,059,089	+ 7.3	6.4	1.1
16	Iron and Steel—Other	51,478	D-14,578	......	1,484,480	1,469,880	— 1.0	4.6	......
10	Machinery	15,591	5,451	— 65.0	159,329	157,915	— 0.9	13.5	4.6
5	Merchandising	8,453	7,617	— 9.9	401,261	387,759	— 3.4	2.8	2.6
5	Mining, Non-Ferrous	4,536	584	— 87.1	90,429	89,697	— 0.8	6.7	0.9
4	Paper Products	3,947	1,901	— 51.8	67,106	69,624	+ 3.8	7.8	3.6
10	Petroleum	25,739	D-10,468	......	597,724	622,091	+ 4.1	5.7	......
3	Printing and Publishing	19,830	11,867	— 40.2	86,528	86,351	— 0.2	30.6	18.3
4	Railway Equipment	11,601	5,585	— 51.9	122,289	128,226	+ 4.9	12.6	5.8
4	Restaurant Chains	3,377	2,867	— 15.1	51,872	52,627	+ 1.5	8.6	7.3
6	Textiles	2,278	2,929	+ 28.6	70,386	67,480	— 4.1	4.3	5.8
6	Tobacco (Cigars)	5,693	3,963	— 30.4	94,566	86,254	— 8.8	8.0	6.1
34	Miscellaneous	46,490	28,349	— 39.0	526,342	486,305	— 7.6	11.8	7.8
205	TOTAL	$740,855	$392,526	— 47.0	$10,442,100	$10,585,030	+ 1.4	9.5	4.9

D—Deficit * —Gain due to one company.

in arriving at the totals. Forty-nine companies, however, improved their showing as compared with last year.

For the first nine months, the net profits aggregated $392,000,000 in 1931 as against $741,000,000 in 1930, a decline of 47 per cent. There were fifty-two companies having deficits of $49,689,000 this year, and twenty-eight with deficits of $16,327,000 last year, which have been deducted in arriving at the totals. The accompanying table summarizes the available reports, showing net profits and percentage change 1930-1931, together with the net worth of the companies and the percentage return thereon calculated at an annual rate without allowance for seasonal fluctuation.

Profits for the first nine months of 1931 were at the annual rate of 4.9 per cent on the companies' book net worth amounting to $10,585,000,000 at the beginning of the year, while the rate of return for the corresponding period last year was 9.5 per cent. The marked fluctuations that have occurred in industrial profits during recent years may be seen from the accompanying chart based on rate of return as indicated by the quarterly reports regularly published, the 1926 average being taken as 100. The Annalist Index of Business Activity in percentage of calculated normal is shown by the dotted line.



Index of Industrial Corporation Profits 1926=100

Railroads and Utilities

Total freight and passenger revenues of the Class I railroads for the first eight months of the year were 19 per cent below the corresponding period of 1930 and 30.5 below 1929, while net operating income, amounting to $350,944,000, was 36.9 per cent below 1930 and 57.7 per cent below 1929. Preliminary reports for September indicate a decline of 46 and 58.2 per cent respectively. On the basis of complete reports for eight months, net operating income for the full year will be in the neighborhood of $580,000,000, which compares with $885,000,000 in 1930, $1,275,000,000 in

1929 and is the lowest since 1921. This would give a rate of return on property investment of but 2.18 per cent.

The August figures reflect the exceptional efforts that are being made to reduce costs. As compared with high level in the corresponding months of 1929, expenditures for maintenance of way were reduced from approximately $83,000,000 to $47,000,000, maintenance of equipment from $103,000,000 to $66,000,000 and transportation expense from $179,000,000 to $129,000,000. Total operating expenses were reduced from $396,000,000 to $269,000,000, and were the lowest for August of any year since 1917.

Gross earnings of the electric light and power companies for the first eight months of the year were off less than one per cent as compared with 1930, an increase of 8 per cent in consumption of electricity by domestic users being offset by a decrease in sales to industrial plants, traction systems and municipalities.

The American Telephone & Telegraph Company established a new high record in earnings for the first nine months, net income after all charges showing an increase of 4 per cent over last year and leaving a surplus of $6,809,000 after payment of the regular dividends. During the first nine months of this year the Bell System had a net loss of about 207,500 telephones, or 1 1/3 per cent of those in service at the beginning of the year, but for September there was a net gain of 12,500 telephones.

The Bond Market

The bond market during October has come under the influence of a condition that it had not encountered since 1929, namely, firming money rates. As usual at such times, yields of the highest grade bonds which sell principally on a money market basis have been readjusted, through lower prices, to the higher rates; and the decline in these securities has doubtless been made more severe than otherwise would have occurred by the abnormal conditions which have caused this firming of money. When people here and abroad insist on keeping their money in currency, and even in gold, and accordingly make panicky demands upon the banks, which are the largest holders of high-grade securities, selling of these securities becomes inevitable. During the three weeks ended October 21 the investment security holdings of the reporting member banks were reduced $168,000,000. Hence the readjustment of prices of these bonds to the advance in money has been rapid, with United States government issues in the van.

At the lows of the month the yields of some Liberty and Treasury bonds exceeded 4 per cent, and all closely approached that figure, for the first time since 1929. Compared with the high prices of the year, reached generally in May, the low prices of government bonds during October, and those on October 28, were as follows:

Prices of U. S. Government Bonds

	1931 High	1931 Low	Oct. 28, 1931 Closing	Oct. 28, 1931 Decline from High
Lib. 3½s, 1932-47	102.23	98.13	98.22	4.1
" 1st con. 4¼s, 1932-47	103.16	99.20	100.26	2.22
" 4th 4¼s, 1933-38	105.5	100.00	101.00	4.5
Treas. 4¼s, 1947-52	114.8	101.28	104.2	10.6
" 4s, 1944-54	109.22	100.00	101.00	8.22
" 3¾s, 1946-56	107.22	98.3	99.00	8.22
" 3⅜s, 1943-47	103.18	94.28	96.12	7.6
" 3⅜s, 1941-43	103.16	94.12	96.00	7.16
" 3⅛s, 1946-49	101.21	90.12	92.17	9.4
" 3s, 1951-55	99.21	89.16	91.24	7.29

Note: Quotations after decimal represent thirty-seconds of a point.

The longer maturities have declined most and the shorter ones least, reflecting the greater preference for the latter by those who require highly liquid funds.

Accompanying these declines has been a sharp rise in the cost of Treasury short-term financing; the last issue of 90-day bills was sold on a bank discount basis of 2 1/3 per cent, a striking contrast with the 0.46 per cent rate on similar bills in July.

As an outcome of this situation and the unbalanced budget, the Treasury finds itself carrying along a constantly increasing short-term debt at a continuously rising cost; and it faces the probability that when it next undertakes the funding of part of its short-term obligations into long-term bonds the terms obtainable will be substantially less favorable than on its earlier offerings this year. Thus the event of the month should impress upon Congress, with redoubled force, the necessity for making all possible effort to balance the budget and for resisting demands for large appropriations of government funds in schemes for relief of the depression. Equal responsibility for adhering to sound principles of public finance rests upon the state and local governments. The bond market can, at proper times and at proper rates, finance without difficulty all reasonable needs of the Treasury and other governmental bodies, but if too much is asked of it at this time price declines will ensue which will retard the return of confidence, add further to the difficulties financial institutions are struggling against, and take funds out of the investment market which should be left available for financing business as it improves.

Foreign and Corporate Bonds

The highest grade corporate bonds have declined with governments during the month. Such encouragement to business as the market has afforded has come not in these grades, but in the lower-rated issues, which in preceding months had been conspicuously weak.

After the first week in October the second-grade bonds became appreciably steadier, and some groups, including foreign bonds, rallied for a time. Doubtless this reflects a more reasoned view of intrinsic values ignored in the previous decline, as well as a more confident attitude toward the business future, following the constructive measures undertaken during the month. Once again the close relationship between the movement of second-grade bonds and stocks has been demonstrated, rallies in both having been nearly simultaneous.

The outlook for the bonds of weaker railroads has been helped by the Interstate Commerce Commission's decision offering rate increases, the proceeds to be pooled and made available to roads not earning their fixed charges. In foreign dollar bonds recovery from the exaggerated pessimism which followed abandonment of the gold standard by Great Britain and the Scandinavian countries was natural, inasmuch as these bonds are payable in gold dollars and the ability of these countries to meet their obligations is not in question. Japanese bonds have fluctuated widely according to developments in the Manchurian crisis. South American bonds rallied. The success of Argentina in improving her trade balance is impressive. The Brazilian Federal government announced during the month its intention to pay interest during the next three years, on all but three issues of its external bonds (5% Funding Loan of 1898; 5% Funding Loan of 1914; and 1922 7½% Coffee Security Bonds) in scrip bearing 5 per cent interest instead of cash. This step has been necessitated by the present inability of Brazil to obtain sufficient foreign exchange for the service of her debts.

Situation in Great Britain

The overwhelming victory of the National Coalition Government at the polls on October 27 strengthens the forces for conservative finance in Great Britain. It will now be possible for the government to press forward its financial reforms with assurance of national backing.

Seldom have voters at the polls faced issues more vital to the well-being of their own country and of the world than those faced by the British this month. With the pound no longer tied to gold, and hence more than ever dependent upon the self-discipline and sense of restraint of the British people, any evidence of weakening in the determination of the latter to adhere to sound financial principles would have been disastrous. The departure from the gold standard has not freed the British people from their difficulties. On the contrary, it has imposed a need for even greater resolution and willingness to sacrifice. Once a currency falls from par a chain of cause and effect is set up which tends to keep it falling, with the result that the difficulties of stabilization tend to increase rather than to diminish with the fall in the exchange rate. Sooner or later unpleasant facts have to be faced and bitter medicine taken, and the sooner this is done the less disorganization there will be to repair. Because of the importance of sterling as an international currency, and the widespread ramifications of British trade and finance, the election in England exercises an influence extending far beyond the boundaries of the British Isles themselves.

The calmness of the British people in the face of the drop in the pound has been most impressive, and is encouraging evidence of British confidence in their country and its institutions. Contrary to any sign of panicky selling of British securities for the purpose of transferring the proceeds into foreign currencies, there have been indications of British liquidation of foreign securities for the purpose of taking advantage of the depreciation in sterling.

The drop in the exchange is having the expected effect of stimulating a distinct revival in some of the export industries, notably coal, cotton and woolens, which have been in the doldrums for a long time. Official unemployment reports for the entire country show decreases of about 150,000 in recent weeks, notwithstanding that the seasonal tendency is usually to the contrary. Such reports of expanding industry are naturally welcomed after the unmitigated gloom of recent months. They should not, however, be misinterpreted. What has happened is that the decline of the pound has cheapened the price of British goods to foreign buyers and put British industry in an advantageous position to get a larger share of what business is moving. Whether Great Britain can retain this business or not will depend on the ability of British manufacturers to keep costs down in the face of influences working for an increase. Costs of imported raw materials are bound to go up; likewise foodstuffs which are largely bought abroad. With this rise in the cost of living may come demands for wage increases. Should these increases be great enough to raise costs to an extent offsetting the exchange advantage Britain will be no better off than before. Thus, the crux of the British trade position is seen once more to lie in the question of wages, the vehement assertions of British labor leaders to the contrary notwithstanding. By reducing the purchasing power of the currency, Great Britain has simply cut wages indirectly as she was unable to do directly, but in a manner in-

finitely more damaging to British prestige and disturbing to world economic conditions.

Outside of England the effect of the cheap pound is to make things very difficult for Great Britain's neighbors, acting as a natural tariff against the import of their goods into England and facilitating the entry of British exports into their own and neutral markets. France, in particular, which has a large trade in luxuries with Great Britain, has been hit by the decreased buying power of sterling, while Denmark chose deliberately to abandon the gold standard rather than lose the all important British market for her agricultural products. Germany is feeling acutely the competition of British coal and other products both in the home market and abroad, which is a serious matter in view of the vital necessity for her to keep her imports down and raise exports. The whole situation is but another illustration of how closely the world is tied together economically, and how the misfortunes of one country tend to spread and involve others.

That "Hoarded" Gold

One of the most curious and persistent hallucinations of the post-war period is that which has prevailed in certain quarters abroad, and particularly among our usually hard-headed cousins of Great Britain, regarding the so-called gold-hoarding policy of the United States and the extent to which the world equilibrium has been upset by this country's wanton or ignorant disregard of its obligations as a member of the gold standard family of nations. "Hoarding" "impounding" "sterilizing" are among the terms that have been freely used to describe this alleged deliberate and inconsiderate policy.

Among the most brilliant in speech of British statesmen of the day, and a man of remarkable versatility, is Mr. Winston Churchill, son of an English father and American mother, an Ex-Chancellor of the Exchequer, and as such presumably qualified to discuss finance; also as Chancellor sponsor of the act of Parliament restoring the gold standard in Great Britain in 1925. Here is a brief extract from a speech by Mr. Churchill to a great audience in Liverpool in recent weeks, explaining the departure of Great Britain from the gold standard and indulging in the common propensity of mankind to lay the blame for troubles upon wicked neighbors, political opponents, or somewhere outside the speaker's sphere of responsibility. He is reported in the London Times, in part, as follows:

> With regard to the gold standard, Mr. Churchill said that the responsibility for driving us off that standard rested mainly on the countries which had impounded the gold. They had no right to reproach this country. "We have always done our duty; we have tried to maintain the standards of sound finance in the world, which was taking every advantage of our high conduct. We have done all we could to promote the rebuilding of Europe after the War, and we have laboured our utmost to fulfil our obligations in the strictest manner. But the burden that has been thrown upon us by world causes and the action of other Governments has proved beyond our strength to bear."

To make his remarks more specific he went on as follows:

> It might be that the pound sterling apart from gold would become a new international medium. If so, England would be the leader of a society of nations embracing a large part of the world, all perhaps except France and America, who would increasingly trade with one another on the basis of a stabilized pound sterling. If that position were reached the two gold-hoarding countries would have to come to terms and make common cause with us and mankind. Therein lay the solution of our difficulties. If we were to reach this conclusion we must put British grit and character behind the pound sterling.

General Smuts, the distinguished statesman of South Africa, former Boer leader, but now a staunch friend of Great Britain, has been in England during the past month and evidently has been influenced by the opinion he found current there. He has made a speech in which he described the situation to his audience as follows:

> The world is full of trouble at present and you have tried to practise sound finance in a world that did not practise it. One of our main troubles has been that the small quantity of gold in the world has always been insufficient to support the credit structure of modern civilization. That small amount of gold is being hoarded in two countries—perhaps not intentionally. I do not accuse the United States or France of deliberately abusing the gold standard, but somehow they seem to be unable to know what to do with it. That was the secret that the City of London had learned through centuries of development. The result is that the stream of gold which is pouring into the United States and France is unproductive.

A Change in the Gold Movement

It has happened that at the very time these gentlemen were speaking a pronounced change in the situation was beginning. A great movement of gold, unparalleled even by the war and post-war movements to the United States, has set in, away from this country. Since Mr. Churchill made his speech more than $700,000,000 of the precious metal has left the United States and the movement is still going on. Moreover, the movement was not initiated in this country. It did not spring from a penitential desire on the part of the wicked Americans to make restitution for ill-gotten gains. The initiative was with Europe and makes clear the fact that a great part of the gold which has been coming to this country since the war was sent here and has been virtually kept here by wicked Europeans, who, regardless of obligations to the gold standard, were desirous of making investments or carrying reserves here, instead of keeping all their eggs in the home basket or of placing their capital at the disposal of the debtor countries which have needed it most and were willing to pay the highest nominal return for its use. In short, the Europeans who in the management

of their private affairs caused so much gold to come to this country and now are causing it to leave this country, have had it in their power to take it at any time. In sending their capital here and keeping it here as they have done, they have been conserving their personal interests according to their best judgment, which is what individuals of all countries usually do. It is a normal procedure and statesmen who make the policies of nations are expected to take account of it.

A Different British Opinion

Some of them do take account of it. Mr. Stanley Baldwin, leader of the Conservative party of England, in his opening speech in the parliamentary campaign just concluded, reviewed the socialistic trend of legislation in England in recent years, the decline of British exports, the rising costs of government, the enormous deficit in the budget caused by the legislation ostensibly for the relief of unemployment, but the effect of which has been to increase unemployment, and summed up his account of the British financial crisis as follows:

> Investors all over the world look first at one country and then at another, and are seized with fits of panic as to where they may with the greatest safety put their savings, and so the eyes of the world, whether we knew it or not or liked it or not, were watching British finance and the British Parliament and were wondering whether that financial cheerfulness and that financial stability for which we had always been distinguished above all nations was still the habit and conduct of our people, or whether we were straying into paths unknown to our forefathers.
>
> And there were those who prophesied that the inevitable consequences of such budgeting would be a flight from the £, which is the picturesque expression used for the practical consequences of that very nervousness of which I have spoken.
>
> It means that people losing their confidence in the stability of our finance hastened to take out of this country this money and put it into currencies in which they have more confidence.

The removal of gold from the United States is accomplished in the only way practicable at this time, for the remedy so often suggested from abroad, that Americans should lend freely to debtor countries which have been unable to balance their budgets or buy as usual in world markets, has been evidently impracticable. Political and business conditions in the last two years have been wholly unfavorable to the placing of foreign loans. The idea of making international loans for the primary purpose of distributing gold or because the borrowing country was financially embarrassed is a novelty in finance. Such loans are taken by private investors, who naturally and properly are governed by business principles. To suppose that governments whose outstanding obligations can be bought in public markets at heavy discounts from the original issue prices may be able to place new issues upon their general credit at higher prices is, of course, out of reason, and for governments so situated to offer new issues at the selling prices of the old issues would be so reckless a policy as to repel investors.

It should be further noted in this connection that the European investors who control the gold now being withdrawn from the United States might lend it to the needy countries with greater safety than the United States could have done so, since the latter evidently has been in debt for it. This country would have been in the position of borrowing short and lending long, upon which has been visited so much criticism lately. Indeed one outstanding feature of the situation as now revealed is the complete vindication of the Federal Reserve authorities in their cautious policy of discouraging a great expansion of credit upon gold which they had reason to believe might be withdrawn from this country at any time.

The Gold Standard Unchanged

Along with the raft of speeches and other utterances upon gold "hoarding" may be dismissed the comments describing the gold standard as broken down, out of date, or radically changed from what it was before the war.

The gold standard is what it always has been, a simple arrangement by which the monetary systems of all countries are linked together, forming a common, worldwide basis for prices and business agreements. Its service is to facilitate trade and the ready transfer of capital between countries. It is of the nature of a mechanized service, automatic in operation. Since all currencies are given a fixed relation to the grain of gold, they all have fixed relations to each other, and allowing for slight variations in exchange charges, a given sum in the money of one country has an unchanging value in the money of any other country. Thus it is possible to make time contracts across international boundaries which have the same stability so far as the monetary terms are concerned as contracts between parties resident in the same country.

Another important function performed by the gold standard besides that of providing a common medium of payments is that of providing an automatic check upon undue expansion of currency and credit. No country which stands ready at all times to redeem its currency in gold can stray very far from sound money conditions. On the other hand, experience has shown that once a country is off the gold basis, it is launched upon a sea of inflation like a ship without a compass. Its monetary system loses its fixed relations with the monetary systems of other countries, and the price relations with the price systems of other countries are lost. In short, the greatest safeguard to business stability is lost.

The gold standard is just what it always has been, a facility. It does not pass judgment upon the wisdom or morality of the transactions which it facilitates. It just facilitates. Movements of gold result from the activities of business, and business in the long run is an exchange of services, which fact in itself is a sufficient guaranty that movements of gold such as have occurred since 1914 will not occur in normal times. It should be constantly borne in mind that it would have been wholly impossible for the United States in normal times to have acquired any such gain in gold as it did acquire during and following the war, and but for such acquisition all the mischief that has been charged thereto, and that may result from the present hysteria over gold, would not have occurred.

Proposals for International Conferences

Numerous suggestions are made for an international conference to do all sorts of things in the way of monetary and economic reorganization, and start the world off on a new and halcyon era. It is improbable that any important changes in the existing economic system or in monetary systems will be accomplished in that way. One of the principal tasks that has been named for such a conference has been a redistribution of the hoarded gold, which may be now considered as removed from the agenda.

It may be added that among all the proposals for monetary reforms those looking to a uniform world currency may be put down as among the most worthless. The gold standard affords a common basis of values and a new currency to be introduced in all countries in place of the currencies with which the different peoples are now familiar would be accepted about as readily as Esperanto has been accepted as a substitute for all existing languages. How long, for instance, would it be likely to take to induce the people of France to accept a currency which had no French word or symbol upon it, in place of their own currency?

It is a safe proposition that the disorders in industry, trade and finance from which the world is impatiently demanding relief are all directly traceable to the advent of the greatest war ever known into a world society more highly organized and interdependent than ever had existed before. It will be well if all the economic and financial doctors who are planning remedies for present ills and future needs take this fundamental fact into account. If they are planning for a monetary system that will afford stability through another war like the last one they had better recognize that the task is an impossible one. If they are planning only for normal times they may as well leave it to the natural evolution of the banking business. It is fairly certain that there never will be a made-to-order world system exercising authority over the monetary systems of all countries. There will be a natural growth of cooperation in the future, as there has been in the past, as the result of a growing knowledge that the real interests of all countries are not in conflict but in harmony. Conferences will develop mutual understanding and confidence, but such relations must be tentative and subject to the free will of all parties.

If war interferes with the regular and calculable functioning of the gold standard, so does it interfere with all other international relations. It is destructive of international society and of the entire economic organization which tends to develop the world's resources to serve the interests of all mankind. War presents the fundamental problem for statesmen to solve. Unless the nations can learn to adjust the differences between them in peace and with intelligent concern for common interests, conferences upon minor subjects will be of small importance.

Union of the Bank of America with The National City Bank

On October 1 announcement was made of a proposed union of the Bank of America, N.A. (New York) with The National City Bank of New York, subject to approval by the stockholders of the two institutions of the terms agreed upon by their respective Boards of Directors. The plan was conditional on the holders of 85 per cent of the stock of the Bank of America, N.A. depositing their stock on or before October 17; and more than the required percentage having been deposited by that date, a special meeting of the shareholders of The National City Bank has been called for Monday, November 23, while the shareholders of the Bank of America N.A. will meet on November 24.

In announcing the proposed union Mr. Charles E. Mitchell, Chairman of The National City Bank, said that shareholders of the Bank of America N.A. would receive one share of stock of The National City Bank of New York identical in all respects with the present outstanding stock, in exchange for each one and two-thirds shares of their Bank of America stock, and also a cash distribution from their own assets of approximately 40c a share. He explained that Bancamerica-Blair Corporation, an affiliated company, was not included in the plan, and would be retained by the shareholders of the Bank of America.